Date: December 5th, 2016

To

International Organization of Securities Commissions
Calle Oquendo 12, 28006 Madrid, Spain
Submitted via Email

Public comment on "Other CRA Products"

Dear Sir,

We welcome IOSCO's wish to understand the CRA market and more specifically the "Other CRA Products" ("OCP"). We appreciate the extensive work carried out by IOSCO in order to analyze these other products. The Consultation Report shows that there is a wide variety of OCPs and that no industry standard currently exists. OCPs from different CRAs use different terminology and may vary regarding content, format and process of the product.

We appreciate that IOSCO is not attempting to standardize the OCPs nor to harmonize the terminology used by CRAs. Given the variety of business models of CRAs and the different markets in which they operate, we think that CRAs should remain free to define their products (both in terms of content and process) and use their own terminology.

In this response, we provide our concern on the vast scope of the consultation, our general views on the 6 types of OCPs as well as on the possible extension of the IOSCO Codes to OCPs.

On the scope of the consultation

We are concerned that the scope of the consultation is extremely wide as it does not only cover the CRA but all affiliated companies / activities of the CRA. The Consultation Report rightly mentions that CRAs have established separate organizational and procedural structures in order to ensure that Traditional Credit Ratings are independent, objective and not subject to conflict of interests due to other activities of the CRA group of companies. These separate organizational and procedural structures follow the principle of Chinese walls between different business units. The CRA Unit may potentially not be aware of other products of the group.

In Europe, several CRAs are part of a wider group of companies. In case of companies providing business information and/or credit scoring activities, the CRA activities often represent only a small share of total turnover of the group (below 10%). Requiring these companies to test whether the IOSCO Code on CRAs applies to all their products, results in a disproportionate burden. Additionally, in Europe, credit scoring activities are not covered by the Regulation on Credit Rating Agencies. As another example, some CRAs in Europe provide "industry ratings" or "fund ratings". These two segments are again not covered by the Regulation on CRAs in Europe and should therefore not be covered by the IOSCO Code.

On the types of OCP

The Consultation Report mentions that market participants use OCP research for a variety of reason a.o. predicting credit rating changes. Given that Traditional Credit Ratings may be used for the calculation of capital requirements, professional users of ratings rightly exercise their due diligence requirements by taking into account OCP Research.

The Consultation Report states that “Private OCPs are determined and issued pursuant to the same rating process as a Traditional Credit Rating”. We would like to highlight that “Private ratings” are not covered by the EU regulation and that CRAs may only voluntarily apply the same process. Additionally, “Private OCPs” don’t necessarily have the option to convert into Traditional Credit Ratings. Given that “Private OCPs” are excluded from the EU Regulation on CRAs, including these under the IOSCO Code would create disharmony between the Code and the EU Regulation.

With respect to “Non-Final OCP”, the EU Regulation on CRAs mentions these in point 5 Part I of Section D of Annex I as follows:

> A credit rating agency shall disclose on its website, and notify ESMA on an ongoing basis, information about all entities or debt instruments submitted to it for their initial review or for preliminary rating. Such disclosure shall be made whether or not issuers contract with the credit rating agency for a final rating.

It is important to note that the EU Regulation does not define the terms “initial review” or “preliminary rating”. Furthermore, the above article makes a clear distinction between these two and a final rating (or Traditional Credit Rating under the IOSCO terminology). The article requires CRAs to report such “preliminary ratings” to ESMA and disclose these publicly – it does not require CRAs to follow the same process as for a Traditional Credit Rating. It can therefore be argued, that “preliminary ratings” are outside the EU Regulation on CRAs.

We note that the Consultation Report distinguishes between “hypothetical transactions” and “proposed transactions” and includes examples whether these are public or private information. Whether the IOSCO Code should be applied on these depends in our opinion on the fact, whether these preliminary ratings can automatically convert into Traditional Credit Ratings or not. If the preliminary ratings can’t convert into Traditional Credit Ratings, then these assessments should not be covered by the IOSCO Code.

With respect to “OCP – Part of the rating process”, we understand that these relate to the analysis of specific elements within an established rating methodology. Since rating methodologies form the basis for assigning Traditional Credit Ratings, all elements of such a methodology are considered during the rating process, but a single factor (such as the assessment of potential external support) can’t be equalized with a “Quasi-Traditional Credit Rating”.

With respect to “OCP – Outside of the rating process”, the Consultation Report mentions that market participants are often not aware of the fact that legal and organizational divisions exist between Traditional Credit Ratings and OCPs. In order to contribute to the correct use of both Traditional Credit Ratings and OCP, CRAs will strive to explain the differences to market participants. Given that these OCPs are not covered by the definition of credit ratings, we agree that the IOSCO Code on CRA should not apply on these.

With respect to “Hybrid OCPs” (eg Fund ratings), we agree that these may follow similar processes as Traditional Credit Ratings but stress that these do not relate to assessments of creditworthiness. These are therefore not covered by the EU Regulation on CRAs and should equally not be covered by the IOSCO Code.

We note that the Consultation Report distinguishes 6 groups of OCPs and that within each group, CRA responded that the IOSCO Code may or may not apply. This primary classification of OCPs is therefore not really helpful in identifying whether a product falls under the IOSCO Code or not.

On the extension of the IOSCO code

Traditional Credit Ratings may be used for regulatory purposes in the European Union, especially since a mapping of ECAI ratings is now available for nearly all players. Professional investors (as opposed to retail investors) can use these Traditional Credit Ratings in important areas such as the calculation of capital requirements. In such cases, we agree that CRAs should apply the IOSCO Code in order to contribute to investors' protection. On the other hand, CRA products not usable for regulatory purposes should not be covered by the IOSCO code. This is in line with the objective to reduce mechanistic reliance on CRAs and that investors should do their own assessments. In order to carry out such own assessments, investor may eg use OCP Research.

We note that the last revision of the CRA Code of Conduct in March 2015 lead to a substantial increase in administrative costs on CRAs based in countries with no specific legislation on CRAs. Extending the scope of the CRA Code to other products would further increase costs to CRAs – this again increasing barriers-to-entry and therefore cementing current market structure.

The revision of the IOSCO Code in March 2015 was meant to bring into harmony the IOSCO Code with existing regulations on CRAs. The extension of the IOSCO Code to OCPs would reintroduce substantial disharmony into the standards applicable to CRAs.

A wide range of countries have already introduced specific legislation on CRAs – while these different legislations have common features regarding the core activities of a CRA (Traditional Credit Rating), differences in some particular aspects may exist, jurisdiction having made additional choices going beyond the IOSCO Code. These differences reflect choices by legislators in order to take into account own specificities and requirements. These national choices should not be used as benchmarks for the IOSCO Code.

In concluding, we think that the application of the IOSCO Code on OCPs needs to remain a case by case decision as it depends on the business model of the CRA, on how the CRA defines its products (and which processes are used to derive the product), on who receives the product (and how) and on whether the product can be used for regulatory purposes.

Last but not least, in its letter to the G 20 dated April 2013, IOSCO states that it "believes that transparency and competition of credit rating agencies ("CRA") can promote investor protection; help ensure fair and transparent markets, and contribute to reduction of systemic risk". We agree that competition of CRAs can contribute to these objectives and note that systemic risks associated with CRAs exist mainly due to the high concentration in the market. We therefore would welcome if the work of the IOSCO C6 Committee would also address these systemic questions.

Thomas Missong	Adolfo Estevez Beneyto
EACRA President	EACRA Secretary General

About EACRA

The European Association of Credit Rating Agencies ("EACRA"), registered in Paris, was established in November 2009. The Members of the Association currently originate from 12 countries and include the following companies:

ESMA registered Credit Rating Agencies

A.M. Best Europe - Rating services Limited (AMBERS) is a subsidiary of A.M. Best Inc who have been providing ratings to the Insurance Sector since 1899. AMBERS' rating coverage includes regional, national and global insurers located throughout Europe, the Middle East and Africa.

ARC Ratings is an international rating agency with a presence in 11 countries on four continents. ARC is registered with ESMA and results from a partnership of 5 leading rating agencies operating in India, Brazil, Sub-Saharan Africa, Malaysia and Europe. This partnership has over 6000 rating clients and 400 ratings staff, giving ARC global coverage as well as vital local knowledge

Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies

Axesor: The first Spanish Rating agency registered with ESMA. Specialized in the middle market segment, with ample coverage of the Spanish corporate market.

Capital Intelligence (CI) offers independent rating opinions on financial institutions, corporates and governments in a wide range of countries, especially the emerging markets of Asia, Europe and the Middle East.

Cerved Rating Agency: Italian Credit Rating Agency recognized ECAI by Bank of Italy

Creditreform Rating: based in Germany, a company of the Creditreform Group that is European market leader in the sector of business information was founded 2000 and is specialised in ratings of companies, bonds, funds and structured finance products across Europe.

CRIF: International Credit Rating Agency based in Italy providing both solicited and unsolicited Corporate ratings.

Euler Hermes Rating is a European rating agency located in Hamburg, Germany. We offer credit ratings and research about debt capital market instruments of corporates of all sorts of industries, project finance ratings and credit portfolios. Euler Hermes Rating is a member of Euler Hermes Group and a company of Allianz

Scope Ratings is an independent credit rating agency founded in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of corporate bonds, financial institutions, structured finance, and alternative investment funds (AIF).

ESMA certified Credit Rating Agencies

Kroll Bond Rating Agency (KBRA) was established in an effort to restore trust in credit ratings by creating new standards for assessing risk and by offering accurate, clear and transparent ratings. KBRA is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). In addition, KBRA is recognized by the National Association of Insurance Commissioners (NAIC) as a Credit Rating Provider (CRP).

CRAs registered or recognized according to national legislation outside of the European Union

Credit Rating Agency (CRA) Limited operates in Zambia and is licensed by the Securities and Exchange Commission of Zambia. It commenced operations in September 2014 and is the first active credit rating service provider in Zambia. CRA rates private and public sector entities, and debt instruments.

Fedafin AG : is registered with the Swiss Financial Markets Authority and acts as rating provider to the Swiss stock exchange

JCR Eurasia is an international credit rating institution based in Turkey.

Other EACRA members

Ellisphere: French leader in business & marketing information and credit management solutions, providing a large range of tools and solutions to secure companies' supply chain financing and improve their development.

Informa is the Marketing, Financial and Business Information leading company in Spain, offering currently more than 3.7 million online scores on Spanish companies

The Members of the Association have very different business models (issuer-pays, investor-pays, hybrid and special models) while assigning ratings. Since January 2014, all ESMA registered or certified CRAs are considered ECAIs across the whole European Economic Area.
Reference the Article 8 d on the use of multiple CRAs and ESMA's report dated December 18th , 2015, all EACRA members registered with ESMA have less than 10% market share in the EU (measured against revenues).